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MBA -- THINK CAREFULLY BEFORE TAKING THE PLUNGE

A FORUM FOR EDUCATING YOUNG PROFESSIONALS ON THE PITFALLS OF RETURNING TO A
FULL-TIME MBA PROGRAM.

THURSDAY, JUNE 02, 2005

A Wharton grad's caveat emptor for prospective MBAs

Everyone goes through a bit of an identity crisis in their twenties. In college, we all enjoyed the luxury of ignorance and optimism. The contestants on *The Apprentice* seem to be making it big, so why can't we? Unfortunately, once we finally make it into the real-life workforce, those dreams are quickly dashed by the corporate machine. As anyone at the bottom of the corporate ladder can tell you, the first few years of a business career will most likely resemble the movies "Office Space" or "Harold and Kumar Go To White Castle". Career promotion and salary increases often occurs at a snail's pace, and the level of intellectual stimulation is far lower than experienced in school.

After a few years of such ennui, when our defenses are down because of drinking and depression, many young professionals fall victim to the siren's song of an MBA-- and such a temptation is understandable. The graduate business programs of Harvard, Wharton, and Stanford reported in their 2003 career placement statistics that the starting median compensations were \$106,000, \$115,000, \$120,000 respectively. In addition, they offer the opportunity to join a fraternity of future business leaders, to learn the skills necessary to succeed, to earn a valuable resume pedigree, to enter into an elite recruiting pool, and to take a two-year break from the rat race. They prop

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PREVIOUS POSTS



up examples like Donald Trump and George W Bush as examples of how an MBA program is the first step in becoming a master of the universe. What mortal can resist such a temptation?

I know this because I was in the same boat five years ago. Needless to say, I took the plunge and enrolled in Wharton's MBA program, class of 2002. Based on my experiences, I would like to take the chance in this article to provide an insiders perspective on the common misconceptions of the big name MBA experience. I feel the responsibility to share this knowledge with you because I feel that biz-school marketing materials make a lot of claims: some of them are true, and some of them are, shall we say, half-truths.

First, let's start with the true statements.

True Statement #1: The People

One benefit of attending a top MBA program is that you will meet many brilliant, interesting, fantastic people just like you. You will quickly make friends, and you will discover many people of unfamiliar cliques, castes or countries whom you normally would never speak to but actually turn out to be fascinating individuals. As a graduate myself, I can tell you that I met several of my dearest friends at Wharton. I can also assure you that I'm not the only one who feels this way. Every top-MBA program grad I ever speak with will invariably wax poetic about the wonderful people they met in their business school years.

True Statement #2: Two More Years Of College

Who wouldn't want another two years of college now that you know how to appreciate it? This point should be obvious, so I won't delve into details. Instead, here's a list of some collegiate perks that most people would love to revisit: Fridays off, high concentration of single men/women, parties, time to pursue hobbies, a chance to pursue an activity you never did in college (journalism, theater, singing, etc), elective courses, spring break... and the list goes on.

Now let's move on to the half-truths

Half Truth #1: Money

The myth of the six-figure-plus salary for an MBA graduate seems to be emblazoned into the collective unconscious. Every MBA website mentions it, the Business Week and US News and World Report articles report on it, and every watercooler kibbitzing session on the topic of the MBA invariably broaches it. This six-figure salary is often much higher than that of your typical MBA applicant. The Graduate Management Admissions Council estimates that an MBA degree provides an increase of 35% in salary pre and post MBA.

These rumors, conjectures, and statistics provide a quite alluring draw, so let's explore them a bit. In all fairness, there are many individuals who receive high salaries upon graduation. My colleagues who have pursued the finance and consulting paths have amassed quite a respectable quantity of what the Notorious BIG refers to as "paper". One of my friends working in finance even managed to pull down a \$500,000 bonus in 2003. Enough said.

Unfortunately, however, there is a flip side. Median compensation numbers are inflated a bit since the schools only release statistics on *self-reported* information, and not all graduates reply to the survey. For example, the \$115,000 median income from the most recent Wharton career report is the average of the 600 respondents, not of the 778 graduates. This disconnect introduces what statisticians refer to as a "non-response bias", meaning that when it comes to reporting something as ego-sensitive as compensation, people receiving low salaries are unlikely to respond. Such a bias implies that the *true* average compensation is probably somewhat lower. To give a real world example, I personally chose not to reveal my salary information to the Career Management office because I felt slightly emasculated in admitting to my relatively meager remuneration.

Secondly, one must beware of what I refer to as the "Keanu Reeves Factor" (in homage to his riveting performance in *A Devil's Advocate*). The Keanu Reeves factor dictates that in order to earn these six-figure salaries, one typically needs to land a job in investment banking or management consulting where one must sell one's soul to the devil. This underworld reference is not intended to refer to the "insert-your-favorite-corporate-crook-here" MBA graduates of yesteryear, but rather to the infernal quality of life that entry level consultants and investment bankers lead. The hours are really, really, long and you completely surrender control over your life. A good friend of mine at a major investment bank said it best in a recent informal interview, "It sucks even worse than people say it sucks."

Thirdly (if that's actually a word), the return on investment might not be as high as you might think. If you will excuse the irony of using a concept learned in business school to refute the value of business school, please consider the following example:

Assume that the Graduate Management Admissions council is correct and that an MBA engenders a 35% salary increase. Also assume that the \$115K salary is correct. If one were to take into account the changes in marginal tax rates, the years of lost income, et cetera, the change in Net Present Value for your ten years after business school would be -\$53,000. This figure is primarily driven by the fact that the student loan repayments for such a hefty sum would have to be a staggering, non-tax deductible \$1,500/ month (assuming a 10 year repayment period). Put into more simplistic terms, if one were to leave an \$85K/year job today for the hope of getting a \$115K/year job two years from now, your net yearly take-home pay (after loan repayments) will be actually be *lower* than if you simply stay put for the first several years. You won't even break even until about twelve years from now.

Please refer to my [link](#) for further explanation.

In summary, the possibility of a significant salary increase do exist for MBA graduates, however that gamble comes with a hefty price. Could that money perhaps be spent better somewhere else? How about saving or investing the money? Or perhaps even investing it in a business of your own?

Half Truth #2: A Chance To Re-Invent Oneself

Perhaps with a teenager's ignorance, you began on a path that has led you to a less-than-ideal career. Maybe a major in sociology seemed like a good idea at the time, but now you've awoken to discover that your job as a social worker just isn't as rewarding as you thought it may be. Well, it just so happens that business schools love to woo people like you. They will herald you in the literature as coming from a "non-traditional background". I'm sure if you log onto any MBA website there will be a testimonial from the proverbial Cinderella who was radically transformed from an art curator into an investment banking tycoon.

Such an opportunity does exist, however there is a flip side-- namely that, as Napoleon Dynamite might say, "Sweet companies only want guys with skills", meaning that an employer will typically only hire the candidate with the most complete portfolio of job-related experience available. As a result, non-traditional candidates often lose out on a finance position (for example) to those with more finance or industry-specific related accomplishments on their resume.

MBA programs do offer the opportunity to gain some of these skills through internships, classes, clubs, etc, however let the buyer beware that if you are looking to re-invent yourself, you may be in for an uphill climb.

Half Truth #3: Pedigree

I won't lie, having the words Wharton MBA graduate on my resume looks nice. I have played the card successfully in

promotion discussions, to the tune of "I have a Wharton MBA so surely I'm qualified to take on more strategic responsibility", and my company has enjoyed playing the same card in client discussions, singing paeans like "we're putting a Wharton MBA on your account so you needn't worry".

The only caveat here is that the pedigree is often not enough. Any corporate decision related to hiring, promotion, compensation et cetera will usually be based on either merit, personal charm, politics, physical appearance, and nepotism first. Pedigree comes second. It break a tie, but that's about it. In order to make it in the business world you have to know the right people, walk the walk, talk the talk, and fight like hell. These rules don't change with a fancy degree. Trust me.

In conclusion, my been-there-done-that experience has taught me that a top MBA program provide some benefits, but at a steep price. If you are currently considering attending a full-time program, please stop to ask yourself whether or not you are willing to take the risk. Business school is a big risk. Should you choose to enroll, the only certainty is that you *will* shell out about \$125,000. Such a figure correllates to a \$1,500/month non-deductible loan repayment and a ten-year period of time in which you will not be able to save a red cent. If you think that this payment is worth it to earn the pedigree, the fraternity, the two years off, and a shot at the big bucks, then the MBA is right for you.

If not, please do something else.

POSTED BY HATMAN AT 12:22 PM

22 COMMENTS:

zacharyemig said...

This post has been removed by a blog administrator.

9:00 AM

zacharyemig said...

EDITED: Very interesting and useful post. The three things I'd like to add:

1. The nice thing about sales and trading is that you're in the IB/MC compensation range without (usually) the IB hours. Of course, you have to have the right personality to handle the hourly stress.
2. I wonder if one other benefit of the MBA is that it helps grads clear a certain hurdle that they couldn't clear beforehand. i.e. in certain companies/fields, without an MBA, no matter your skills or charm, you'd have a very hard time moving above a certain rate of salary/promotion. So the MBA opens at least a potential for far greater advancement, which might not be reflected in recent-grad salary numbers.
3. About career change, I think this would vary from school to school. At least at Michigan, since we aren't overloaded with finance students, it's not unusual for people to successfully transition into IB. I *wonder* (don't know the answer) if schools "known for finance"--like Wharton--draw a lot of students with tons of finance skills, who would naturally be the ones to land the finance jobs (as you point out)?

Otherwise, I agree with your other points, especially the one about pedigree. I've also wondered about those students who come to school and then go to work for [non-IB/MC] companies...how DO they pay off all those student loans?

I hope you write more on this topic, because it is worthwhile for applicants to get the full picture.

Zachary Emig
Ross School of Business, Class of '05
<http://www.zacharyemig.com>

9:01 AM

musicterrormonkey said...

This post has been removed by a blog administrator.

1:51 PM

Anonymous said...

"the first few years of a business career will most likely resemble the movies "Office Space" or "Harold and Kumar Go To White Castle"."

You had me laughing here! You see, Jon Hurwitz is the man who produced "Harold & Kumar Go to White Castle". He entered the movie business in 2000 when he sold his original script to MGM. At that time, Hurwitz was a finance major at the University of Pennsylvania's Wharton School, preparing for a career as an investment banker. After graduation Hurwitz ditched his previous plans and moved to Hollywood.

2:39 PM

HatMan said...

In reponse to my esteemed colleagues:

Mr Zachary:

I agree with your first point. Sales and trading seems a bit more meritocratic if you have the right golden-tongued and a-type personality.

I would be VERY careful on your second point, however. I suppose that once one gets to the potential CEO/CFO/Managing Director candidate arena, perhaps an MBA may be some sort of Good Housekeeping stamp of approval that may be necessary for your advancement. But for the most part, I have found that if the corporate mediocracy wants to keep you from climbing the ladder, they will do so regardless of your educational achievements. Jerks are jerks, dopes are dopes, and good leaders are good leaders.

Regarding the comment on Jon Hurwitz... hilarious. I had no idea. I guess my faith in humanity is restored now that art is

once again imitating life.

By the way. did anyone see David Brooks' article in the Sunday Times? It seems people like us are making some headway here.

<http://www.nytimes.com/2005/06/05/opinion/05brooks.html>

7:05 PM

FMGirl said...

Great post - as a "nontraditional" Whartonite, I so wish I had known there was no way I'd be able to get an IB gig. Live and learn I guess....

10:08 AM

St Louis Cardinals BUFF said...

So many blogs and only 10 numbers to rate them. I'll have to give you a 8 because you have good content.

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5:51 AM

jasmine said...

I found a lot of useful info about Management Consulting on your blog - thank you. I also have a new Management Consulting Tips blog - please click over and have a look

12:55 PM

Anonymous said...

very enlightening post. you should also add that many of the high salary jobs are in high cost of living places like nyc. so that has to be factored in too

12:26 PM

Anonymous said...

I would like to add two points to your analysis:

1. I don't think that a 7% growth rate is sustainable over a 10-15 year period without making some kind of drastic change. So,

assuming a person is in a specialized technical position or in low/middle management position and that person today earns 85K, I really think that person will have a hard time moving upto say 200K just on the basis on yearly "merit" raises. The merit raises tend to be lot less than 7% these days. Also, most likely this person's current job position, in no way is going to warrant a 200K salary. To summarize, a 7% growth rate may be sustainable for a short while but not for much longer without some significant risks (ergo MBA).

2. Assuming all your calculations are indeed true, at the end of 10 years, with an MBA, this person is making almost 1.9 times what this person would be making without an MBA. Assuming a person enters graduate school when they are around 28, graduate when they are around 30, they will break even when they are around 40. That still leaves a hell lot of working life in front of them. So when they are 40 years they will be making twice the money because of their MBA. Moreover, this gap goes on increasing. For example, after 20 years the income difference exhibits a factor of 4. So when you are 50 you are making 4 times the money and when you are close to retirement (60 years), you are making 8 times the money that you would have been making without an MBA.

Granted that there are a lot of ifs here. And I certainly appreciate your insight here. It definitely has me thinking about my MBA plans!

My point here, is that even if we use your calcuations but plug in different time horizons, the results look completely different. So MBA is certainly a risk, but it can just as likely go your way.

2:50 PM

LEMONADE SODA said...

Oh my goodness Hatman!

I can see your Wharton MBA has done you a LOT OF DAMAGE.

Your ROI is complete smoke and mirrors. You should know

better. You have completely OVERCOMPLICATED the problem.

If your growth rate and your discount rate are the same, so, just forget about it. It "net nets".

Hence ALL YOU ARE MODELLING is the NPV change in the marginal tax rate, which you show to be varying by, approximately, nothing PLUS the NPV of the loan.

Therefore you wasted a whole bunch of time developing your spreadsheet.

ANSWER

Net = taxed income differential x 8 years - NPV cost of loan - lost income for 2 years

where NPV cost of loan is loan principle grossed by loan spread to lender, approx. $\text{loan} \times (\text{margin} \times \text{years} \times 50\%)$

Oh look! I can do all of those numbers in my head. No PC needed. No EXCEL spreadsheets.

PCs should be BANNED on MBA programs. Stops them thinking you see... always trying to overcomplicate something that should be done on the back of an envelope.

CONCLUSION

MBAs... they learn to apply the text book answer but can't think for themselves, make issues more complicated than they need to be, and cost you a bucket more to hire. Hence I, as an employer, he-he, prefer really smart MBA-capable people but WITHOUT the MBA.

And they are a lot less complicated to boot.

And I'm not kidding.

6:28 PM

Rotem said...

When you talk about pedigree, I think you're missing one point. I'll agree that a top-MBA school doesn't matter much (merit is more important) once you get into IB or the big consulting firms. But the pedigree does come into play for the **getting in** part. The top schools are basically a big HR party from the start of your first semester there. People just as qualified that go to smaller less recognizable schools don't get that exposure and can't get the same jobs.

3:29 PM

Brian said...

I don't really see where the \$125,000 cost comes from. Seems to me that Harvard's tuition (as an example) is around \$37,500 this year. I think I had it pegged at around \$83,000 for two years with books and other misc. costs. Of course there's living expenses, but those have to be paid whether you are going to school or not.

6:00 AM

Anonymous said...

Hi there,

I am a prospective MBA and these days hunting for the best school for myself.

I just loved ur post and it made me think about my plans.

It's so difficult to make the decision as we always wanna assume that its right...but what if its fall the other way.It's scary!!

MBA is a big risk and so strange to think that studying something could ever be risky!!Weird huh!

But yeah the fact remains that inspite of so many "Ifs" some lucky people do get lucky!;-)

Cheers,

Sweta

<http://spaces.msn.com/sweta444>

2:22 AM

Jay said...

It is a risky proposition to go for an MBA - but I guess status-quo is equally risky.

My two cents:

1. For some professionals it is a rites-of-passage to go to Business School (IB/MC).
2. For a lot of people although the MBA may not make a lot of difference in the salary - it might give them the opportunity to switch careers
3. I guess the Opportunity-Cost should be based on how much an individual saves or invest - not on much you earn. One might be making \$60K but may be spending all of it in living large :)
4. I also agree with a previous comment - the living expenses should not be included in the cost of MBA
5. The real question is not whether an MBA is worth it - it is whether an MBA is worth the \$100K or so it will cost. How much does an average Bachelor's degree cost? (I guess 4 yrs & maybe around \$50K) The solution is not "Not going for an MBA" - the solution is getting the schools to reduce the cost of MBA.
6. Okay - Point 5 above is highly improbable - but this can happen if any/all of the following become more common
 - (a) People start choosing lower cost schools over the Harvards & Whartons - either the state schools, or schools giving tuition waivers
 - (b) People start following the outsourcing trend and going abroad to get an MBA.A FEW schools in India, Singapore, Spain, France, UK, Australia and Brazil provide comparable education plus international exposure at much more reasonable costs.

Google the foll:

Indian Institute of Management Indian School of Business
National University of Singapore
Asian Institute of Management
HEC Paris

10:58 PM

Anonymous said...

Could you post an e-mail address so that those with a few questions can contact you?

Thanks.

3:43 PM

Anonymous said...

Great post. It's amazing all the buttons you can hit with a topic like this. I am on the wagon, applying this year. I definitely do second guess my decision every day. Is it the right move? The worse part is when you sit down to write the essay and really the answer is "An MBA will make me rich enough fast enough so I can sit on a beach with my dog." But the truth is, I will be taking on a significant amount of debt and most likely, will go into consulting or banking and be in a high paying job that isn't really my passion for 10 years while I try to pay back the loan. When I'm 40, I guess then I'll be ready to hit that beach with the pup. I really don't know if it's the right decision or not but what I do know is whatever I'm doing now ISN'T right. It is a risk and I guess I'm willing to take it. At the end of the day, everything is what you make of it. This is a big risk and if someone gave me a \$125,000 business idea that I could bite into, or if I could come up with one of my own, I can guarantee you I wouldn't be doing this. Oh well, for my own lack of vision or opportunities, here I and many others will go. Thanks for the honest insight. Always good to get the non-marketing material perspective.

1:22 PM

Anonymous said...

I am a current wharton student, and for all those prospectives, please think about it carefully.

i'm really disappointed, it's not about discovering new things, it's quite the opposite. Summer internship is focused on getting full time employment, not trying new careers. it's as if I-Banks had outsourced their training programs, it's all so focused on short-term recruiting.

Plus people absolutely lack social skills, it's horrendous. I find it all so immature, students comments in class are all nonsense, everyone fighting to get the class participation marks and wasting everyone else's time. it's pathetic. at this point, i'm thinking an executive program probably makes more sense. Professional education should be delivered to professional and mature students, not infantile wanna-bes

5:10 PM

Anonymous said...

wow, this was a really insightful blog. first of all, i should clarify for brian that two years at a top MBA program (i.e. wharton, stanford, columbia, etc..) easily hits \$120K, in fact the true figure is more like \$130-140K, unless you plan on subsisting solely on ramen noodles and sharing a tiny rat-infested apartment with like 4 roommates. tuition, fees, books and supplies alone will easily surpass \$40K per year at any of these top programs. that leaves you about \$20-35K per year to live on, in a ferociously expensive city like new york or boston, no less. harvard suggests a budget of at least \$65K per year, including living expenses. and that's about \$130K total, for two years during which you will really have to scrape by. (this does, of course, presuppose that your daddy isn't a horseback-riding hedge fund manager from greenwich willing to foot the entire bill without batting an eyelash.)

the bucks you'll shell out for a top MBA are no doubt a huge consideration. such a glittering degree will infuse you with an almost matchless academic pedigree. but this doesn't take into account prior socioeconomic pedigree. the sons of squash-playing new canaan hedge fund managers and senior managing directors won't have to worry about paying those \$1,500 monthly interest and principal loan payments. their daddies will happily cover the expense, no doubt without blinking. and when it comes time for these "trust puppies" to land their first post b-school jobs, they'll no doubt call on their daddies, their uncles, cousins and family friends to pull the requisite strings and prop them above the haggling masses. this is the lie of meritocracy on "the street", as old as the financier J.P. Morgan. doubt not that socioeconomic pedigree ultimately

trumps academic pedigree when it comes to advancing in many lucrative MBA venues.

that said, GE titan jack welch was born into a working class family and attended the university of illinois. the two wealthiest men on wall street, warren buffet (\$45+ billion) and carl icahn (\$8+ billion) hail from relatively unexceptional backgrounds. in fact, carl icahn once very nearly had to sell the clothes off his own back to scrape by. sure, others like KKR's henry kravis and Blackstone's steven schwarzmann have wealthy pedigrees, but Lehman's billionaire CEO richard fuld was once a gruff bond trader of relatively middling origins.

the point is, education is important, but it's not everything. it certainly won't guarantee success. i know a 33 year old man with multiple degrees from ivy league schools who still lives at home. there's an element of mystery, indeed almost of magic, in the rise of a successful person. and a diploma alone can't account for it.

9:24 PM

Anonymous said...

Hi,

Just read your blog and is excellent, I agree with everything you say, it is what you make of your degree. Incidenatally, I overheard a discussion yesterday between two guys from CMU and Pace University NY respectively, so I was wondering what is your opinion of MS or MBA from universities like Pace University?

Thanks and best regards,

I.

9:32 PM

Christian Schraga said...

Hey,

Thanks for the comment.

To answer your question, I think that schools like Pace can be great alternatives to a "designer brand" MBA. Just make sure though that you take advantage of the fact that Pace is in NYC. Maybe do an internship or two in a field that you might like to pursue?

Since Pace is in NYC, you'd have great access to media and finance. Take advantage!

7:52 AM

Anonymous said...

Thanks for your reply, I agree with you and will make sure that the right person reads it, I am at NYU, not business (unfortunately!)

10:32 PM

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